

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSION REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: GRACE SEAMAN

DATE: APRIL 10, 2014

RE: 2013 IDAHO TELEPHONE SERVICE ASSISTANCE PROGRAM ANNUAL
REPORT; CASE NO. GNR-T-14-03

BACKGROUND

Each year the Administrator of the Idaho Telecommunications Service Assistance Program (ITSAP) files a report detailing the activities and status of the program during the previous year and submits a recommended budget for the next year. ITSAP provides eligible recipients with a reduction in the cost of residential basic local exchange telephone service. Funds for the program are raised through a surcharge on all end-user business, residential, and wireless access service lines. The Commission determines the uniform statewide monthly surcharge and the Idaho Department of Health and Welfare administers the program and grants limited federal “lifeline” contributions to Idaho’s low-income customers. *Idaho Code* § 56-901(1). Idaho telephone companies provide assistance in the form of a monthly discount of \$2.50 to eligible subscribers. *Idaho Code* § 56-902(1). To be eligible for the ITSAP assistance, the applicant must be the head of a household and meet narrowly targeted eligibility criteria based solely on income or factors established by the Department of Health and Welfare. *Idaho Code* § 56-903(1).

THE 2013 ANNUAL REPORT

In the annual report filed March 4, 2014, the ITSAP Administrator, Alyson Anderson, reported a drop in wireline access lines of 7%, an increase in wireless lines (9%), and a decrease in the number of ITSAP recipients (25%). The sharp decrease in the number of ITSAP recipients was primarily due to the annual subscriber database reconciliation that required the deletion of approximately 1700 recipients. The gross surcharge revenue for the year was reported at

\$1,142,488 of which \$299,781 (26%) was assessed on wireline services and \$842,707 (74%) was assessed on wireless services. The Administrator explains eligible telecommunications carriers (ETC) remit net surcharge revenue, which is gross surcharge revenue less any assistance credits provided to eligible recipients and the ETC's administrative costs. Thus net surcharge revenue collected and deposited in 2013 totaled approximately \$911,100.

The average number of wireline access lines per month reported to the Administrator was 454,941 compared to 491,572 in 2012, and the average number of wireless access lines per month was 1,395,896 compared to 1,276,830 in 2012. Overall, there was an increase of approximately 82,435 in the total number of average monthly lines subject to the ITSAP surcharge (1,850,837 lines per month compared to 1,768,402 in 2012).

The average number of reported ITSAP recipients per month in 2013 (17,626) decreased by 25% from 2012 (23,434). Telecommunications companies received \$661,876 in disbursements for ITSAP credits paid to eligible recipients compared to \$1,149,508 in 2012. Disbursements for telephone company administrative costs were \$57,818, a decrease from 2012 (\$93,578).

The Administrator's fees and expenses, including bank charges and fees, were \$13,106 for the year. The fund's cash balance at the end of the year was reported at \$953,172.

2014 BUDGET AND TRENDS

The ITSAP Administrator projects the funding requirements for 2013 will be approximately \$743,410. The ITSAP recipient reimbursement to the companies for 2013 is projected to be approximately \$662,760, and expenses are estimated to be \$80,650 for costs associated with administration of the program, including the Administrator's costs (\$12,850), the telephone companies' administrative costs (\$60,000), bank charges (\$300), and the cost for a triennial audit (\$7,500). The monthly surcharge revenue received from wireline and wireless telephone companies, at the current rate of \$0.03 per line, is projected to be \$632,486.

To establish the 2013 budget, the Administrator estimates that the number of access lines subject to the surcharge will be approximately 1,756,905 per month and the average number of ITSAP recipients will be approximately 22,092 per month. Based on this data, Ms. Anderson projects the funding requirement for 2013 will be approximately \$743,410.

ADMINISTRATOR'S 2013 FUNDING RECOMMENDATIONS

Ms. Anderson states that the passing of Senate Bill 1013 that reduced the ITSAP monthly credit from \$3.50 to \$2.50 combined with the 2012 end-of-year fund balance necessitated a reduction in the ITSAP surcharge rate last year from \$.07 to \$.03. The Administrator notes that it is difficult to accurately predict the number of credit recipients as well as the number of access lines that will be assessed the surcharge. She recommends a cautious approach to the 2014 funding for the following reasons: (1) The unknown impact of the wireless ETCs that have not begun marketing the ITSAP Lifeline discounts in Idaho; (2) The long term impact of the ITSAP database reconciliation; and (3) The possibility that some companies not requesting reimbursement of program administrative costs may do so in the future. Given the uncertain nature of the ITSAP, the Administrator recommends the surcharge rate remain at \$.03 per local and wireless access line. At this rate, the program will maintain a comfortable fund balance of approximately \$800,000; an adequate amount to handle any unexpected occurrences in the program.

STAFF ANALYSIS AND FUNDING RECOMMENDATION

Staff has reviewed the 2013 annual report, the proposed 2014 budget, and the 2014 funding recommendation. When determining the appropriate fund for 2014, recent events must be considered. First, the reduction of the ITSAP subscriber credit from \$3.50 to \$2.50 per month became effective on July 1, 2013. This reduction of almost one-third of the monthly credit significantly reduced the disbursements to the ETC. Second, as a requirement of the Federal Communication Commission's (FCC) *Lifeline and Link Up Reform Order* (FCC 12-11), released on February 6, 2012, the ITSAP program saw a drop in the number of recipients. This reduction was a result of the annual ITSAP/Lifeline database recertification process. The ITSAP will continue to be volatile in 2014 as some ETCs, such as Cricket Communications, elect to withdraw from the ITSAP program (effective February 2014) while other ETCs elect to begin active participation. For example, several large wireless ETCs did not seek reimbursement from the ITSAP fund in previous years, but may elect to do so in the future. Third, it is difficult to predict the outcome of the federal National Lifeline Accountability Database (NLAD) implemented last month in Idaho. It is unclear if the NLAD will have a negative or positive impact on the enrollment of ITSAP/Lifeline recipients. Staff, therefore, agrees with the ITSAP Administrator that due to the uncertainties facing the program, it is prudent to take a cautious approach to the 2014 funding.

Staff believes the 2014 budget is reasonable and supports the Administrator's recommendation to maintain the surcharge rate at \$0.03 per access line. Thus, Staff recommends that the Commission approve the Administrator's rate proposal and the 2014 budget.

COMMISSION DECISION

1. Does the Commission wish to accept the 2013 annual report and adopt the Administrator's 2014 budget?
2. Does the Commission wish to adopt the Administrator's recommendation to maintain the monthly ITSAP surcharge rate at \$0.03 per access line?



Grace Seaman

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